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Overview of the Canadian Public-Private Partnerships market

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The Public-Private Partnership delivery model ("PPP" or "P3") is now well established in Canada, where more than 177 of such projects were closed between 1993 and 2015 (source: InfraAmericas). The great majority thereof (166) have been closed since 2004, and the current trend indicates the number of projects is on the rise. Thus, considering the projects already completed in 2016 as well as projects currently engaged in the tendering process, according to the Canadian Council for Public- Private Partnerships "CCPPP", the total number of completed and pending PPP projects in Canada currently stands at 247.

Canada is often described as the most active PPP market in the world, and is certainly one of the most mature. The life cycle of infrastructures, the Canadian geography and the current economic context are all convergent factors that favour this market. Also, the improvement of public infrastructures through the use of private capital is a concept which has always benefited from the support of the federal government.

The Liberal government elected in October 2015 made infrastructure a major pillar of its economic platform with the campaign promise to double the country's infrastructure investments. On November 1, 2016, Finance Minister Bill Morneau announced the creation of the Canada Infrastructure Bank ("CIB") in 2017, whose mandate will be to invest in large infrastructure projects by attracting capital from institutional investors. Taking into account existing infrastructure programs ($91 billion), the investments announced last March in the government's first budget ($14 billion), and additional investments included in the economic and financial update last November 1 ($81 billion), the federal government estimates that the country's total infrastructure investments will reach $180 billion between 2016 and 2028.

According to the CCPPP's data, the Canadian P3 industry is still dominated by social infrastructure (58%) and civil infrastructure projects (24%). The health sector remains the largest subsector within social infrastructure, with 37% of the completed transactions. However, we note an increase in transportation-related projects, particularly suburban highways and light-rail transit projects. Other types of projects are also being developed, such as wastewater treatment and waste management plants and power transmission lines, all of which are new asset classes offering alternative investment opportunities for investors.

Provincial bodies such as Infrastructure Ontario, Partnerships BC, SaskBuilds, Alberta Infrastructure, Partnerships New Brunswick and the Société québécoise des infrastructures are at the heart of the Canadian PPP programs and are directly responsible for the majority of infrastructure projects. Infrastructure Ontario remains the largest agency in terms of size and the number of completed transactions. It also serves as a reference for documentation and processes.

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At the municipal level, about 15 municipalities have also undertaken to develop their own projects, although they are often implemented in partnership with the provincial agencies.

Federally, seven projects have been launched to date in PPP mode, notably the Confederation Bridge and the new Champlain Bridge. Another recent example is the Gordie Howe International Bridge connecting Windsor, Ontario to Detroit, Michigan, which is currently engaged in a call for tenders process.

The 177 PPP projects completed since 1993, as reported by InfraAmericas, represent an aggregate value of $79 billion, or an average project value of $482 million. If we consider the aggregate of projects identified by the CCPPP as completed and currently underway (247), this represents a total value of $118 billion. It is generally acknowledged in the industry that a project must have a minimum value of $50 to $75 million to be viable for the PPP delivery model.

To date, Ontario and British Columbia have been the most active Canadian provinces in terms of PPP, together contributing 121 out of a total of 177 projects (68%) by the end of 2015. Ontario has completed 90 projects to date, or 51% of the Canadian market. This is followed by Quebec with 10%, New Brunswick with 6%, Alberta with 6% and Saskatchewan with 5%.

Canada remains a market open to international competition and foreign capital, and continues to attract numerous players from Europe and the United States. In terms of risk, this is a relatively conservative market that is not so open to projects exposed to volume (or traffic) risk. However, this has the advantage of attracting the interest of institutional investors for Canadian infrastructure debt, which actually benefits from high-quality risk ratings.

In terms of financing, the Canadian pension funds and life insurance companies are the main actors involved in investments in the form of private placements. Their interest in this class of assets has made private placements the primary financing solution for the Canadian P3 market. Most of the projects resort to bank credit during the construction phase, which is then refinanced on the bond market once the project has been completed. However, some projects have been financed solely through bond issues.

Thus, according to InfraAmericas, of the 177 projects that were financed by the end of 2015, 125 (71%) were financed solely with bank debt, 37 (21%) were financed solely in the capital markets, and 15 (8%) were financed with hybrid forms, i.e., through a combination of bank debt and long-term bond financing.

More recently, a secondary market for PPP projects has developed which has some potential throughout Canada. While most institutional investors such as pension funds and insurance companies view PPPs as long-term investments, there are also some promoters who potentially wish to assign their interests in certain projects after a relatively short time, in order to redeploy their capital in other projects or sectors.

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